



THE ATARI REPORT

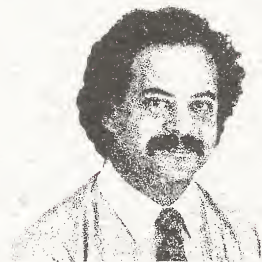
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Fall 1988

Atari Update

by Sam Tramiel, President



Welcome to the first edition of THE ATARI REPORT, a quarterly newsletter created primarily as a means of providing direct communication to

shareholders, potential investors and other interested observers of Atari. In it we propose to cover segments of our company's activities in the development and marketing of personal computers, videogames and other fine home/office electronics.

Atari's progress has been exciting over the last four years as we have grown substantially in sales, becoming one of the Fortune 500 companies for 1987. We have found it vitally important to be continually aware of the demands of the marketplace and ready to anticipate with accuracy the needs of the consumer. As new programs and products are conceptualized at nanosecond speeds, we plan to communicate each significant new development to keep you fully apprised and up-to-date on a regular basis. One important note: two-way dialogue always makes for better communication and we welcome any comments or suggestions you may have.

Now a look at our second quarter ended July 2, 1988, and some comments:

Computer and Video Game Division

Net sales for the quarter were \$101.5 million compared to \$70.7 million for the same quarter last year, an increase of 44 percent. Operating income was \$17.1 million compared to \$13.8 million last year, an increase of 23 percent. For the first six months, net sales were \$199.2 million compared to \$135.8 million last year, an increase of 47 percent. Operating income was

\$32.4 million compared to \$25.7 million, an increase of 26 percent.

The computer and video game division continues to grow at a healthy pace. The Atari ST computer line is selling very well throughout Europe, Australia, and Canada, where demand continues to exceed supply. The production constraint is principally due to the continuing DRAM (Dynamic Random Access Memory) shortage which, in our view, will persist into the first quarter of 1989, thus further delaying our attack on the U.S. market. The video game market is very strong, especially in the North American market. Sales during the first six months have also benefited this year from the addition of new sales subsidiaries in Australia, Mexico, Spain and Sweden. Division profits have been squeezed by higher DRAM costs and marketing and distribution costs associated with establishing the new sales offices.

Federated Group -- Retail Division

Net sales for the quarter for the Federated Group, acquired on October 4, 1987, were \$63.1 million. The operating loss of the retail

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Federated Group store, Torrance, CA



Atari Internationally

Atari markets its products directly through wholly owned subsidiaries in fifteen different countries around the world. Atari is represented in 33 additional countries by independent distributors.

The territories covered by these distributors range from the largely Spanish speaking South American countries with the need for Spanish computers and software, to the countries of the Middle East where the need is for computers which operate in Arabic, and from right to left! And Atari has solutions to all these needs.

The Atari Distributor for a given country operates on an exclusive basis for all Atari products for that country; and provides not only the channel of distribution, but also the essential element of service and software

support.

Our business partners are active in providing the locally required translations of documentation and software, and adding the national flavor to advertising, product descriptions and brochures. Training courses for users and engineers in local language are provided at strategic locations throughout the assigned territory, which has the secondary effect of education and job creation in some areas of the world where these new skills are desperately needed.

Atari Distributors are selling Atari products into a diverse range of markets: entertainment products to Saudi Arabia, 8-bit computers for the educational system in Chile, STs as musical instruments in Japan, and Atari PC compatibles for businesses in Venezuela.

Mike Dendo Joins Atari



Mike Dendo

Mike Dendo joined Atari Computer in Sunnyvale in June as Vice President, Sales. Dendo is responsible for distribution and sales of computers in the U.S. marketplace.

"We're going to continue to emphasize support to dealers," said Dendo, "as well as expand coverage in strategic markets." Atari intends to continue building on its foundation in music and education. "My short term plan is very simple," said Dendo. "Give the best possible support to the dealer base and ensure that dealers and Atari have successful fall and winter seasons. In the long term, we will build a solid network of

dealers to allow Atari to hit the marketplace at a fast pace as we introduce new products after the first of the year." Atari will also concentrate on upgrading dealer capabilities. "Subject to product availability and dealer coverage, we will do advertising and promotion."

Dendo formerly was a sales executive for Star Micronics, a manufacturer of computer printers.

Atari Forms Dealer Council

Atari has established a Dealer Council, which first met June 13 at company headquarters in Sunnyvale, CA. "This is our first attempt at bringing dealers closer to us," said Sam Tramiel at the meeting of Atari executives and dealer representatives from each U.S. sales region. "In Europe, dealers meet every quarter. This will be the first such meeting for us here."

Augie Liguori, Atari vice president, opened the meeting, welcoming owners and managers from fifteen dealerships. Liguori emphasized that the purpose of the Dealer Council is to establish and open communications between dealers and Atari, increasing sales through dealer support.

Tramiel gave the first presentation of the morning, speaking of Atari's plan to make a steady attack on the U.S., the #1 computer market in the world. He also outlined Atari's plans for new products to be introduced in the next year, emphasizing that Atari will continue the 520 and 1040ST product lines.

Calendar

SEPTEMBER

2-4: West Germany. Atari Messe, Dusseldorf. Contact Atari Deutschland, Frankfurter Strasse 89-91, 6096 Raunheim, West Germany, phone 49-6142-2090.

10: Georgia. Computer show, Houston Mall, Warner Robins, GA. Atari and IBM compatibles. Contact Peter Miller, Middle Georgia Atari UG, (912) 922-5666.

15-17: California. Seybold Desktop Publishing Exposition, Santa Clara Convention Center, Santa Clara, California. For more information, call Seybold Seminars, (213) 457-5850.

16-17: California. Southern California Atari Computer Faire, Version 3.0., Glendale Civic Auditorium, Glendale, CA. Produced by ACENET, a group of 22 computer clubs, including HACKS. Space for 80 exhibitors, over 5000 attendees expected. John King Tarpinian, president, (818) 760-1831.

OCTOBER

1-2: Washington, D.C. WAACE Atari-Fest, Fairfax High School, Fairfax Virginia. Gary Purinton, chairman, (703) 476-8391.

NOVEMBER

14-18: Nevada. Comdex '88, Las Vegas. Atari has reserved the Gold Room for its booth. Write the Registration Department, Comdex Fall, 300 First Avenue, Needham, MA 02194.

Comdex: Nov. 14-18

Atari intends to make a big impression at this year's Fall Comdex, the annual computer industry conference in Las Vegas. This year, Atari has reserved the Gold Room, a 6,600-square foot hall adjacent to the main show floor.

Atari intends to feature the MEGA line of personal computers as well as new products. Many prominent Atari software developers will share the booth space. Atari will emphasize its ability to deliver solutions to the education, MIDI, desktop publishing, and graphics markets.

For more information, call The Interface Group, (800) 325 3330.

Atari Users Show Off at Scout Meet

Many Atari user groups participate in local computer shows or community fairs. But ST-JAUG of Jacksonville, FL demonstrated Atari computers at Scout World 1988, with 162,000 in attendance!

Scout World is the annual jamboree of the Boy Scouts of America, held in conjunction with the Navy at the Jacksonville Naval Air Station. Offered at no cost to the Scouts last May, Scout World is a week-long event of camping and learning. Saturday and Sunday the Scouts attended exhibits such as the ST-JAUG booth.

The booth contained over twenty STs running a variety of applications and entertainment software, including IBM and Macintosh emulation, Timeworks Desktop Publisher ST, and WordPerfect. Using Interlink, the group also demonstrated the ST's communications abilities on an account provided by GENie. An additional space with Atari 8-bits was offered for Scouts to work towards a computing badge.

The booth generated a lot of attention and interest. Watching the Atari demonstrations, base commander R.H. Jesberg said, "You guys stole the show. Will you be back next year?"

ST-JAUG currently has 167 members in the Jacksonville area, of whom at least three-quarters are in the military.

ST-JAUG of Jacksonville, FL demonstrated Atari computers at Scout World 1988, the annual jamboree of the Boy Scouts of America.

Boy Scouts gather around an ST at the ST-JAUG booth.



The Atari booth at Spring Comdex was busy throughout the show with software and hardware developers demonstrating their latest applications and new business and professional system packages.

Atari Business Solutions

Atari Computer attended Comdex in Atlanta last June in full force, emphasizing the availability of complete computing solutions for individuals and the business. The Atari booth was busy throughout the show with software and hardware developers demonstrating their latest applications and new business and professional system packages.

Atari Computer exhibited the MEGA and ST product lines, the new Atari PC4 (an 80286-based computer) and the new CD ROM player. Known as the CDAR504, the CD-ROM player is expected to have a retail price of \$599. Potential applications include storage of reference materials, such as medical libraries, or any large amount of information requiring fast access. It also has the ability to play standard audio compact disks.

Some other highlights:

Hardware

ISD Marketing demonstrated a new monitor from Germany capable of displaying a high-resolution monochrome picture (1280 X 960) with a standard ST. This is done through an interface card and a patch to the ST operating system. Primary applications for these monitors are unlimited, including CAD, computer graphics, and desktop publishing. The monitors will come in a variety of sizes, ranging from standard 13-inch screens to the big-screen video monitors often used with television. They should be available by the end of the year.

Migraph is finishing up work on a new inexpensive flat-bed scanner and Navarone showed off its 300 dpi flat bed scanner. Both are able to scan images and save them out as .IMG files for use in all the major desktop publishing packages.

ViewTouch POS Systems demonstrated its unique concept of restaurant point of sale systems using the MEGA2 and their unique ViewTouch monitor.

Desktop Publishing Solutions

The desktop publishing area of MEGA and ST software continues to grow. Soft-Logik, creators of the popular

Publishing Partner program, showed Publishing Partner Professional. Using their ultra-high resolution monitor, ISD Marketing demonstrated Calamus, a sophisticated desktop typesetting program. Migraph demonstrated new enhancements to its Easy Draw line of Professional Drawing Tools. Timeworks demonstrated Desktop Publisher ST, a versatile desktop publishing program now available. And Atari showed Deskset, a professional-quality desktop typesetting system, to be released later this year.

These powerful packages, combined with the Atari MEGA/Laser system, offer price and performance that surpasses competitive systems. Atari dealer promotions for MEGA/Laser systems offer incredible savings for consumers, making the Atari solution an unbeatable buy.

CAD Solutions

A number of companies demonstrated their latest CAD packages. Athena II was shown by Illiad Software, DynaCADD by ISD Marketing, and MasterCAD by Michtron. Computer-aided design continues to show great potential as a professional-level market for Atari dealers and VARs.

New Software

Revolver from Intersect Software was demonstrated at the show and generated a lot of interest. This program can best be described as a virtual memory switcher. It allows you to stop programs while they are running and save them to disk. You can then load them back into memory at any time. Intersect demonstrated this with a hard drive: the "rolling in and out" of applications was very fast. Revolver is now shipping to dealers.

Cyberpaint 2.0 was being shown by The Catalog (Antic) and contains many new features. This product should be available in the near future.

MichTron demonstrated GFA Basic 3.0. The product has been recently completed and contains over 300 new commands with a 40-60 percent increase in speed!

Current Computer Products and Markets

Atari has grown along with the computer industry, always taking advantage of new technologies to provide computing power without the price. New applications and entertainment packages are released every month by Atari and its developers.

Hobbyists and business professionals can always find the software they need at a cost they can afford. High-level applications like desktop publishing, computer-aided design (CAD), music, graphics, and educational programs, are growing in availability and appeal. Support by prestigious developers such as WordPerfect has added to the Atari's popularity.

Atari's Desktop Publishing System is becoming recognized as a good product and a good value. A recent article in *Personal Publishing* magazine (August 1988) favorably reviewed both Timework's Desktop Publisher ST and Publishing Partner Professional, two full-featured desktop publishing programs for the Atari. These programs both emulate popular packages in the MS-DOS environment, but offer additional capabilities at a significantly lower price.

Atari has garnered a significant share of the MIDI market. Both amateur and professional musicians use STs or MEGAs with their keyboards and sequencers to compose, produce, and perform pieces. Musicians finding favor with Atari computers include: Hall & Oates, Tangerine Dream, Peter Gabriel, B.B. King, Oscar Peterson, Jean-Michel Jarre, and the Pointer Sisters.

The Atari product line is continuing to expand. Transputer-based workstations are nearing completion for European markets, and Atari is at the forefront of new data storage technologies with the development of a compact disk CD-ROM system.

XE

The latest addition to Atari's 8-bit line of computers is the Atari XE Game System. The system, which includes a light gun and keyboard, can play the full array of XE and XL cartridges. With the addition of the XF551 disk drive, hundreds of programs are

easily accessible. The Atari 800XL, 65XE and 130XE are currently available for very good values.

ST

The Atari 1040ST offers one full megabyte RAM and a built-in 3 1/2" 720K double-sided disk drive. It features a 68000 32-bit microprocessor running at 8 MHz, with the GEM operating environment and the TOS operating system in ROM. Standard features include parallel, RS232, mouse, joystick, hard disk, and MIDI ports. The suggested list price of the 1040ST is \$799.95.

The Atari 520STFM offers good value with a half-megabyte of memory, and a built-in single-sided disk drive in addition to 1040 capabilities. The 520STFM also includes a built-in modulator allowing usage of a standard TV as the monitor. The suggested list price is \$599.

High-resolution monochrome or full-color monitors are available for use with the ST systems, for \$199 and \$399 respectively. External 3 1/2" disk drives, hard drives, dot matrix printers, and modems, are also available.

MEGA

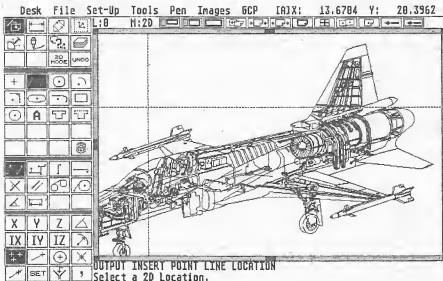
The high-performance MEGA systems include two or four megabytes RAM and built-in 3 1/2" double-sided disk drives. The built-in BLITTER chip speeds graphics capabilities. All MEGAs are fully ST compatible. The MEGA2 is offered at suggested list price of \$1699 including a monochrome monitor, \$1899 with a color monitor. The MEGA4 system is \$2399 monochrome, and \$2599 color.

The new Atari SLM804 laser printer offers 8 pages-per-minute at 300 dots per inch. It uses the CPU and memory capabilities of its host computer to take advantage of a much wider selection of fonts, emulations, and graphics standards. Suggested list price is \$1,995. Many Atari dealers are currently offering MEGA/Laser printer packages at special prices.



Atari offers a wide range of products at a variety of price points. From the Atari XE Game System (\$199), which uses the family TV set as a monitor, to the Atari Desktop Publishing System (\$3995), with four megabytes of memory, hard disk, and laser printer, everyone can afford an Atari computer.

Atari Computers in Computer-Aided Design



DynaCADD
from ISD
Marketing

**"The Skilful
Scul" Marine
Drive (patent
pending)**

Atari can provide an affordable computing solution for almost any application. And with the advent of personal computer-based software for computer-aided design and drafting, the Atari has an opportunity to rise to the top in engineering and architectural design and drafting.

Previously, most CAD systems have been sold through specialty dealers with a highly technical orientation. However, because of the Atari's low cost and ease-of-use, the Atari computer dealer provides an ideal environment for CAD sales, including both low-end and sophisticated high-end packages.

The number of computer-aided design and drafting (CAD) software packages available for the Atari MEGA and ST is steadily growing. From 2D drafting to true 3D solid modeling, there is software available for every level of expertise and application. High-quality dot-matrix and laser printers can be used with an Atari CAD package, as well as any of the

popular plotters available. Most software is compatible with the DXF file format used by AutoCAD and VersaCAD.

Atari computers also provide hardware features important to CAD users: the large amounts of built-in memory, easy-to-use GEM graphical interface, mouse, and high-resolution monochrome monitor are all already part of an Atari system. In the future, a math coprocessor and large-screen monitor will become available for use with the Atari. Compared to Apple or IBM-based systems, Atari offers the same capabilities with more power for a significantly lower price.

An Atari system is perfect for small businesses and home inventors. Engineers widely recognize it as the system of choice for any application. And large corporations are starting to provide employees with Ataris for use as second systems at home. Atari's affordability makes it easy for users to purchase multiple systems--two Atari MEGAs with CAD software can be obtained for the price of one comparable workstation.

Inventor Takes Advantage of ST Versatility



Ron G. Young is a retired machine designer in British Columbia, Canada. Now nearing 70 years of age, Ron began working as a draftsman when he was a teenager in England. Using an Atari 1040ST, Ron has recently completed design of his own invention, "The Skilful Scull."

Ron's invention is an outboard engine which does not use a propeller, but rather oscillating sculls, moving "almost like a bird flapping its wings," said Ron. He is in the process of patenting his engine, which he claims is much more

efficient than those propeller-driven.

Ron believes he couldn't have invented the engine without his Atari 1040ST and Generic Software's FirstCADD product. "It is very difficult to draw gear teeth to scale," said Ron of designing the engine's planetary gears. "On the beautiful paper-white screen of the Atari, I can generate many wheels using a drawing of a single gear tooth."

Ron has also written a book on the development of his machine, using his Atari ST and Soft-Logik's Publishing Partner desktop publishing program. Ron hopes to see his engine manufactured and marketed: he has prepared a report on his Atari ST which is illustrated with Degas Elite. "The 1040 has made all this possible for me," said Ron.

Video Game News



Great Design

The Atari XE video game system was recognized for excellence in design and engineering at the Innovations '88 competition held in conjunction with the June Consumer Electronics Show in Chicago. Designed by Ira Velinsky, Atari director of industrial design, the XE system was the only video game hardware product to be honored.

Crack'ed and Atari Planetarium for the ST also received awards for originality and innovation in programming. A total of nine Atari game titles were recognized, the most from any one company. The other games were: XE Into the Eagles' Nest, Mario Bros., and Thunderfox; 7800 Hat Trick and Impossible Mission, and 2600 Super Football.

World Series Promo

You may have seen Atari's new TV ads for video games, featuring sports stars Doug Williams of the Washington Redskins, Ozzie Smith of the St. Louis Cardinals, and "Spud" Webb of the Atlanta Hawks.

At the height of the season, the baseball spots are currently running nationally, in conjunction with the Atari Baseball Sweepstakes. To promote Atari 2600 RealSports Baseball, Home Run, 7800 RealSports Baseball, and XE Hardball, Atari is giving away two free trips to two World Series games. Pick up an entry form at a participating retailer, and enter to win!

New Atari Game Titles

Atari's Entertainment Electronics Division will release a total of 45 titles this year. New titles currently on store shelves include XE cartridges Rescue on Fractalus, Ballblazer, Battlezone, Star Raiders II, Blue Max, Lode Runner, Midnight Magic, Hardball!, Fight Night, Barnyard Blaster (the new shooting game with superb graphics), Gato, Archon, and One-on-One Basketball.

Other new software includes ST Crack'ed, Planetarium, Missile Command, and Moon Patrol.

Distribution Expands

"Atari receives wider and wider distribution every day," said Ron Stringari, vice president of sales and merchandising for Atari's Entertainment Electronics Division. "Our direct account base in video games has nearly doubled since last year." Surging video game sales, Atari's fast-selling products, attractive price points, aggressive advertising, and plans for summer and fall promotions have prompted many new retailers and distributors to carry Atari's line of video games, including Sears, Montgomery Ward, Musi-land, National Merchandize, Hypermart, Smitty's, Costco, and Price Club. These join the other national retailers, toy chains, electronics stores, catalog showrooms, and discount/mass merchants carrying Atari products.

Atari Founder Nolan Bushnell Is Back!

Original company founder Nolan Bushnell has signed a video game development agreement with Atari Corporation. Bushnell started Atari in 1972 and sold it to Warner Communications in 1976. He is now chairman of Axlon, and has agreed to design and develop on an exclusive basis an unspecified number of video games for the 2600 and 7800 systems.

Said Mike Katz, president of Atari's Entertainment Electronics Division, "If anyone can design and develop great state-of-the-art games for the 2600 and 7800, it's Nolan." Bushnell commented, "I'm very excited at the prospect of working again in the home video game industry, especially with my alma-mater, Atari."

Bushnell founded Axlon in 1983, to develop and manufacture coin-operated games and design toys for licensing.



*Nolan
Bushnell*

As cost controls implemented at Federated take hold, together with seasonally increased retail sales and video game sales, we are well positioned for the second half of the year.

Atari Update

Continued from page 1

division was \$5.7 million. While less than the first quarter, Federated's losses were higher than expected and reflect non-recurring restructuring, store downsizing, and physical inventory costs. The turnaround process continues and measures are being taken to restore profitability.

We're especially pleased with the results of our Southern California test stores featuring "office-at-home" sections, and are now setting up similar departments in all the Federated stores. These "Compu-Centers" will feature Atari ST or MEGA computers as well as a PC clone; telephones, answering machines, personal copiers, integrated faxphones and typewriters -- all geared to the home office environment. The "home office" is a new market segment of our industry that is expected to grow dramatically in the months ahead.

Atari Corporation, Consolidated

Net sales for the quarter were \$164.6 million compared to \$70.7 million for the same quarter last year, an increase of 133 percent. Income before extraordinary item was \$5.6 million compared to \$7.8 million. For the six month period, net sales were \$333.9 million compared to \$135.8 million, an increase of 146 percent. Income before extraordinary item was \$11.2 million compared to \$17.1 million.

Net income per share for the quarter was \$.10 compared to \$.23 in the same quarter last year. For the first six months net income per share was \$.19 compared to \$.50 last year. (Prior year results include tax credits of \$.10 and \$.21 per share for the quarter and six months respectively.)

As cost controls implemented at Federated take hold, together with seasonally increased retail sales and video game sales, we are well positioned for the second half of the year.

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